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Sent by email only to: [david.fowlis@cma.gsi.gov.uk](mailto:david.fowlis@cma.gsi.gov.uk) and [energymarket@cma.gsi.gov.uk](mailto:energymarket@cma.gsi.gov.uk)  
Dear David,

**Non-Confidential Response to Second Consultation on the Energy Market Investigation (Gas Tariff Codes) Undertakings 2016**

Thank you for your email dated 20 October 2016 asking Centrica to provide written representations on the second Draft Undertakings on Gas Tariff Codes.

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For the purposes of our response we have used the same defined terms as set out in the Draft Undertakings, save where expressed otherwise.

The second Draft Undertakings confirm the introduction of a 12 Tariff Page cap on the number of Tariff Pages allocated to each domestic gas supplier and an allowance to use up to 14 Tariff Pages provided certain conditions are met, i.e. none of the allocated pages are unused and the total number of Unallocated Tariff Pages is equal to 10 or more. They also introduce a requirement on suppliers to relinquish a Tariff Page for each combination of 11 Unused Tariff Codes on its Tariff Pages.

Whilst Centrica, in principle, supports the availability of Tariff Codes to new entrants, the current drafting of the Undertakings creates significant operational complexity for us, specifically in terms of the difficulties in migrating customers off existing Tariff Pages. This in turn creates the potential for customer detriment for those customers who may inadvertently be migrated to a new supplier's tariff if that Tariff Page is re-allocated.

As a result of the telephone conference on 4 November between the CMA, Ofgem, Siemens and Centrica, Siemens has offered potential solutions as follows:

1. To make the creation of new Tariff Pages a priority project, with 62 pages being delivered in Q1 2017 and another 71 pages by the end of next year;

2. To use existing free Tariff Codes, if a new entrant does not need a new complete Tariff Page; and
3. To offer the ability for suppliers to relinquish Unused Tariff Codes, rather than full Tariff Pages

We believe that these new solutions enable the CMA to take action which is reasonable and practicable to remedy the AEC (as required by Section 138(2) of the Enterprise Act) and therefore justify a change in approach to that outlined in the Final Report (as provided for in s138(3)). Conversely to pursue the remedies as currently proposed within the Draft Undertakings would be unreasonable, impractical and disproportionate, given the difficulties in Centrica's ability to meet the obligations, the potential for customer detriment and the fact that much simpler and cost effective solutions are now apparent.

### *Implications of the pages and codes restrictions on customers who do not vend regularly*

The introduction of a 12 Tariff Page cap coupled with the qualification in Article 5.1 of the Draft Undertakings that a supplier which holds a combination of 11 Unused Tariff Codes across its Tariff Pages will automatically be deemed to hold an Unused Tariff Page, create significant operational difficulties for suppliers like Centrica who currently own and use 14 Tariff Pages and who have customers on each Tariff Page. As flagged in our letter of 9 August 2016, we have already returned our 16 Unused Tariff Pages to Siemens. A requirement to return a further 2 pages (to comply with the 12 page cap) would require migration of [redacted] customers whilst a requirement to return a further 8 pages (to comply with the 11 Unused Tariff Codes requirement) would require migration of [redacted] customers.<sup>1</sup>

The process for migrating customers from one Tariff Page to another means that there will always be a residual risk that not all customers on the affected Tariff Page pick up their message from their payment outlet before the Tariff Page is re-allocated to a new supplier (as messages time out after 28 days).<sup>2</sup> This could result in a customer being placed on the new supplier's tariff, rather than the tariff that they have contractually agreed to. In our view this creates clear detriment for affected customers.

Our purchasing analysis shows that of our active customer base (customers who have purchased at least once) [redacted] of our customers have not vended for more than 12 months. Additionally, our experience with [redacted] refunds illustrates that despite activity over an 18 month period, we still have up to [redacted] of affected customers who have not 'picked up' their refund. [redacted]

Should Centrica be required to return a further 2 Tariff Pages (to comply with the 12 page cap), we would expect [redacted] customers to still remain on the affected pages after 6 months. A requirement to return a further 8 Tariff Pages (to comply with the 11 unused codes requirement) would leave [redacted] customers stranded on the affected pages after 6 months.

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<sup>1</sup> [redacted]

<sup>2</sup> As noted in our confidential response to the CMA's provisional decision on remedies on 11 April 2016, our letter of 9 August 2016, our response to the first Draft Undertakings and our call on 4 November.

During our telephone conference of 4 November, Ofgem suggested that this issue could be eliminated as long as suppliers ensure messages are continuously available. In response, Siemens advised that having a continuous message available at the customer's last 3 known vending outlets is not technically viable due to the limited message capacity on each terminal. Extending this capacity would require significant hardware changes at a disproportionate cost to suppliers.

Whilst Centrica can try to migrate affected customers within the timescales required by the Draft Undertakings, given the constraints detailed above, there will always be a residual number who potentially remain on the affected page(s). Given this, Centrica has concerns that it will be unable to meet the Undertakings as currently drafted – specifically the requirement to free up a Tariff Page under Article 5.1 within a 120 or 150 day period (as relevant). This would also create potential detriment for these customers, who could begin paying for their energy at a tariff rate that they have not agreed to.

### *The creation of new pages will deliver the objective of the Undertakings*

The provisions regarding Tariff Codes were designed to address the adverse effect on competition (AEC) in the gas prepayment market, which the CMA identified as being caused by “technical constraints that limit the ability of all suppliers, and in particular new entrants, to compete to acquire prepayment customers, and to innovate by offering tariff structures that meet demand from prepayment customers who do not have a smart meter.”<sup>3</sup>

However, as outlined in our response to the first Draft Undertakings, Centrica understands these technical constraints to no longer be in place. Siemens advised on 4 November that it has prioritised the creation of new pages and will now release an additional 62 Tariff Pages by Quarter 1 2017 (moved forward from Quarter 2 2017) with another 71 Tariff Pages available by the end of next year. We understand Siemens will put this commitment in writing and share it with the CMA.

This new availability of pages appears to make it likely for the number of Unallocated Tariff Pages to be equal to 10 or more, provided there is not a large number of new entrants to the prepayment sector (which appears unlikely given the introduction of the price cap from April next year).

### *Siemens to allow migration of individual codes and part pages*

In addition, during the conference call on 4 November Siemens suggested 2 practical alternatives as an interim solution to the AEC whilst it creates its additional pages. Firstly it suggested that new entrants who do not require a full Tariff Page can use 1 or more Tariff Codes from page 14.

Secondly Siemens also offered to create a solution which will enable suppliers to release part pages to new entrants. We understand this is currently being developed as part of a GPEG SPAA Gas Prepayment Expert Group, which operates under Schedule 25 of the Supply Point Administration Agreement.

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<sup>3</sup> The Energy Market Investigation (Gas Tariff Codes) Undertakings 2016, Background, paragraph 4.a.

We also understand that participants who would use codes from part pages would have control of the tariff values (e.g. unit rate and standing charge). However they would have to agree to the values set at a page level, which are controlled by the incumbent page owner. This includes the Gas Allocation Rate (GAR - the value for each vend the meter will allocate for energy and repayment of debt), Budget Incremental Step Size (BISS - a budgeting button on the meter), Emergency Credit Threshold, and the Emergency Credit Limit. The incumbent page owner would have to commit to not change these values without prior notice to [and agreement of] other suppliers operating Tariff Codes on that Tariff Page. Centrica would be happy to commit to this.

## *Process pages 13 and 15*

For the purpose of clarity, Centrica has always assumed that pages 13 and 15 are excluded from the cap as they are used to support other processes and will contain a continually fluctuating volume of customers.

All large suppliers need a page to accommodate the 'blank card process', i.e. when a customer loses their card and picks up a 'blank' card from an outlet, the card has to have some predefined values on it to allow it to work in the customer's meter. Centrica uses Page 15 for this purpose. Other suppliers will use different pages.

Because Centrica uses 14 Tariff Pages, we need an additional page to accommodate this process. A requirement on Centrica to return this blank card process page would require significant work (primarily because of the need to simultaneously remove and replace cards across 20,000 outlets) with potential risk to a customer who may inadvertently be given a blank card which still links to Tariff Page 15.

Page 13 Tariff Code 0 is used for Centrica customers who have a meter which cannot support regional tariffs. It is also a shared Tariff Code; used by some smaller suppliers. Centrica control the values of this code and we are obligated to inform any supplier using this Tariff Code (via Siemens) in advance of any changes to it.

We would be grateful for your confirmation that these process pages are excluded from either the 12 or the 14 Tariff Page cap.

Finally, whilst we understand the CMA's and Ofgem's concern around barriers to entry, we would urge for the Draft Undertakings to create sufficient flexibility to allow the release of new prepayment propositions by the incumbent suppliers.

## *In conclusion*

Whilst we support the Draft Undertakings in principle, the proposed 12/14 Tariff Page cap combined with the requirement in relation to Unused Tariff Codes presents significant operational complexity concerns with regards to the migration of customers who do not vend regularly or not at all.

The creation of (1) a significant amount of new Tariff Pages by Quarter 1 next year – the date the Draft Undertakings will take effect, (2) the potential to allocate individual Tariff Codes from page 14 to new entrants and (3) the development of an interim solution to transfer part pages to new entrants better addresses the AEC that the CMA has identified



and implement a much less disproportionate remedy than the one currently proposed. We therefore suggest the Draft Undertakings are revised to reflect these new developments. For this reason we have not commented on the actual drafting within the Undertakings.

Yours sincerely

Tim Dewhurst  
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